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DETERMINANT FINANCIAL PERFORMANCE OF THE SHARIA INSURANCE COMPANY

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Abstract
Sharia-based economic development has been increasing significantly in Indonesia. People start to practice their financial management using the sharia principles which can be applied by both Muslims and non-Muslims. Therefore the insurance is required by the public to protect themselves in case of risk (e.g. natural disaster). Sharia insurance has a "takaful" principle which means "help each other". The statistics from the Financial Services Authority (OJK) gained from various sharia insurance companies indicated that the Sharia life insurance contributions had been increasing significantly from 4.5% in 2019 to 10% in 2020. This study uses a quantitative research method with systematic scientific study of the parts and phenomena and the causality of their relationships. The purpose of quantitative research is to develop and use mathematical models, theories and/or hypotheses related to natural phenomena. This study uses method regression analysis. From the result we can see if contribution, liquidity, leverage, and firm size can be effect to financial performance because when up and down this is also effect to growth performance in company but only retakaful dependence cannot effect to financial performance.

Introduction
Sharia-based economic development has been increasing significantly in Indonesia. People start to practice their financial management using the sharia principles which can be applied by both Muslims and non-Muslims. Therefore the insurance is required by the public to protect themselves in case of risk (e.g. natural disaster). Sharia insurance has a *"takaful"* principle which means "help each other". The statistics from the Financial Services Authority (OJK) gained from various sharia insurance companies indicated that the Sharia life insurance contributions had been increasing significantly from 4.5% in 2019 to 10% in 2020. In the mid-2020 during the Covid-19 pandemic in Indonesia, the gross contribution growth of sharia insurance decreased by 12.08%, from Rp 207 billion in 2019 to only Rp 182 billion in 2020. In the early pandemic, the positive performance of the sharia insurance company experienced no recession, but an increase in profit in terms of the general insurance field. Puspitasari (2015:161) states that contribution is a term of premium that must be paid to sharia insurance party, the gross amount becomes the obligation of insurance participants for the portion of risk and the set "*ujrah"*. Burca and Batrinca (2014) in Kushi *et al* (2020) indicate that the premiums are affected by the financial performance of insurance companies but are not comparable (Kantakji, Hamid, and Alhabshi, 2020). Sharia insurance companies, in addition to insurers for claims, are made by participants later, and also cover other insurers in managing the risks that will occur later, called retakaful.

Retakaful Dependence is an agreed activity in which there is a situation of mutual coverage between insurance companies, the insurer, and the insured, according to the agreement. The huge costs incurred for these retakaful purposes have been presented in the company's financial statements. Ibrahim *et al* (2020) and Kantakji, Hamid, and Alhabshi (2020) in their research state that the existence of this retakaful dependence does not affect the company's financial performance. Many responsibilities both to the participants of sharia insurance and the operation of the company, then the sharia insurance party certainly have obligations that must be reinforced, the ability of the company in fulfilling its obligations is referred to as the liquidity of the company. The liquidity ratio that can be used to measure the company's performance is the Current Ratio as stated by Wanjugu (2012) and Hemrit (2020) inversely proportional to the results of research conducted by Ishtiaq and Siddiqui (2019) where the liquidity levels do not affect by the financial performance of insurance companies. The big company tends to have a stable financial compared to the small company. According to Hardwick (1997) in Ismail (2013), and Too and Simiyu (2018) firm size measurement in a company is positively related to the company's performance due to unit cost savings. This is not supported by the results from Wanjugu (2012) which states that firm size does not have an impact on financial performance while according to Hemrit (2020) factors that affect financial performance one of which is firm size.

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The level of liquidity and leverage to either the financial performance of the company is moderated with the firm size or company size, The big company has bigger assets and will facilitate the company in liquidating and meeting the level of debt well and generate a fairly high profit.

LITERATURE REVIEW

Resources Based Theory

Based on Resourced Based Theory, the company's ability to perform well and have a good competitive advantage is determined by the resources (Wernerfelt, 1984), which can be categorized as intangible assets because especially in this insurance company: the provision of financial services and risk management. Solikhah *et al.* (2010) in Purwaningrat and Oktarini (2020) states that the resource-based theory is thinking that develops in strategic management which believed that the company will achieve a competitive advantage if it has superior resources, where it is to obtain a sustainable competitive advantage that requires the company to obtain economic rents or returns (Sukma, 2018 in Purwaningrat and Oktarini (2020).

Agency Theory

It is one of the best well-known theories that has been used since the 1970s in the fields of economics, finance, and management. Agency theory explains the relationship between liquidity and the size of the company to the company's performance. According to this theory that has been developed by Jensen and Meckling (1976) in Arshad, Halim, and Irijanto (2020), the agency costs are related to company performance, and a situation as follow: when the agency costs are getting lower, then the value of the company becomes higher and has a better performance and vice versa.

Financial Performance

Financial performance is a result of the company's operations that describe whether or not the financial in the company. Financial performance can also be interpreted as an analysis conducted to see the extent to which a company has carried out using the rules of financial implementation properly and correctly such as making the results of the company's financial statements by the standards and provisions in the Financial Accounting Standards (SAK) and General Accepted Accounting Principle (GAAP) and other rules (Irham, 2017:2). Irham (2017) argues that performance means being used for some or all of the actions of an organization in a period along with references to the number of costs in the past or projected management.

Return on Asset (ROA)

Cashmere (2014) states that Return on Asset (ROA) is a ratio that indicates the use of the company's assets or the company's returns in the management of its assets. Return on Asset (ROA) is used as an indicator to find out how profitable a company is in a certain period to its assets and resources. Wanjugu (2012) measures ROA ratio as a financial performance variable or as a measurement of the company's performance.

Contribution

Contribution is a term of premium that must be paid to sharia insurance parties, namely several gross that become the obligation of insurance participants for the portion of risk and ujrah (Puspitasari, 2015:161). The amount of contribution does not affect the financial performance of sharia insurance companies, especially in the company's investment income where this is stated by Kantakji, Hamid, and Alhabshi (2020) and Kusi *et al* (2020) inversely proportional to the results stated by Burca and Batrinca (2014) in Kushi *et al* (2020), argues that the premiums paid by each insurance participant affect whether or not the financial performance of insurance companies.

Retakaful Dependence

Retakaful dependence an agreed activity in which there is a situation of mutual coverage between insurance companies between the insurer and the insured according to the agreement. This component is calculated by calculating the comparative value between the reinsurance value and the total value of the company's assets according to Sula (2004) in Cupian and Delisa (2019). Shiu (2004) in Ibrahim *et al* (2020) argues that this ratafakul dependence is able to improve the operational stability of insurance companies, but it is feared that it will interfere with the level of preverence of companies that will decrease the level of profit earned.

Liquidity

The company has the ability to fulfill its obligations in a certain period of time. It is determined to measure the company's performance such as the duty of the financial manager of sharia insurance companies in performing obligations to policyholders and or creditors (Adam and Buckle, 2003). According to Ismail (2013), if the

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liquidity value of insurance companies is decreased, it will be able to improve the company's financial performance. The opinion expressed by Mazviona, Dube, and Sakahuhwa (2017) in Ibrahim *et al* (2020) states that the company's liquidity level will also determine the state of the company at which time the asset is at the most liquid level.

Leverage

It is the value between the total debt held by the company to the company's equity. A decision taken by the company regarding its level of leverage can have a good or bad effect on the company's protection, no exception to sharia insurance companies (Mehari and Aemiro, 2013, in Fitri and Sepky, 2016).

Firm Size

Firm size is measured by the total assets that describe the size of the company, where the larger the size of the company indicates that the company performs well, the ability to generate business profit is higher and the situation is stable, and vice versaHardwick (1997) in Ismail (2013) and Too and Simiyu (2018) argue that firm size measurement in a company is positively related to the company's performance due to the savings in unit costs and efficiency of the use of the company's operating costs by increasing its output.

METHODOLOGY

This study uses a quantitative research method with systematic scientific study of the parts and phenomena and the causality of their relationships. The purpose of quantitative research is to develop and use mathematical models, theories and/or hypotheses related to natural phenomena. This study uses method regression analysis.

Results and discussion

Several variables can affect the financial performance of the company, especially in this case sharia insurance companies, among others contributions, retakaful dependence, liquidity measured by current ratio, leverage, Firm Size. Where each of these variables has its role in influencing the company's financial performance.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5.026672	0.172517	28.33474	**0.0001**
K	4.69E-06	1.13E-06	4.145318	**0.0002**
RET	-0.089672	0.428603	-0.157435	**0.8543**
LIQ	-0.017005	0.007435	-2.453548	**0.0268**
LEV	-1.654457	0.367076	-4.518239	**0.0000**
SIZE	0.573651	0.243626	3.308588	**0.0229**

$$Y = 5.026672 + 4.69E\text{-}06K - 0.089672RET - 0.017005LIQ - 1.654457LEV + 0.573651SIZE+e$$

Contributions must be met by insurance participants with a certain amount of money paid each month. The company's financial performance is measured by the rate of contribution growth earned by the company annually or within a certain period. Increasingly, the growth of contributions is assumed by the company to experience an increase in gross income obtained from its customers. As stated by Kantakji, Hamid, and Alhabshi (2020) and Kusi *et al* (2020) that the premium paid by participants each period affects whether or not the financial performance produced by the company. Contributions obtained by the company are not necessarily only be used for the customers, but when the payment of such contributions participants are charged administrative fees and other forms of costs used for the company's operations and investments by sharia. One of the uses of funds is to retakaful or insure the risk of the company to third parties or other insurance. Shiu (2004) in Ibrahim *et al* (2020) states that this retakaful dependence can improve the operational stability of insurance companies. The results of Ismail's research (2013) state that this ratakaful dependence can't affect the financial performance of insurance companies. But insurance companies in addition to conducting retakaful must also meet obligations both short-term and long-term, one of which is the obligation for the managers of the company to policyholders and creditors. The lower the liquidity level of the company, the better its financial performance as stated by Ismail (2013) and Mazviona, Dube, and Sakahuhwa (2017) in Ibrahim *et al* (2020). The level of corporate debt also needs to be controlled, the ability of the company in making decisions about its leverage level can affect the company's financial performance. The more the company can settle the company's debts with lancer, the less of the company suffers losses and display good financial performance, and convince its shareholders and customers to remain in the company. The company's ability to fulfill all obligations and operations of the company well is inseparable

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from the value or size of the company itself. The size of the company itself is measured by the total assets owned by the company, the larger the size, the more likely the assets owned and signify its financial performance is also improving. Resourced Based Theory states that firm size is one of the company's internal factors that provide added value for a company is no exception like Hardwick (1997) in Ismail (2013) stated that the size of the company positively affects the company's performance due to the use of costs efficiently and able to increase output well. This means that the company is able to align between the input and output of the company.

Conclusion

Many factors can affect the company's performance, especially its financial performance, which includes contribution, liquidity, leverage, and firm size. Each of these factors has a direct or indirect role in the company's financial performance. From the results of previous research, many argue that these factors can affect the sharia insurance companies' financial performance. The larger the size of a company, the more assets owned that can be used for operations, hence meet the obligations of the company. But only retakaful dependence can't effect to financial performance.

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